

College Counts 529 Fund Board Meeting

November 9, 2011

9:00 a.m.

MINUTES

Board Present:

Chair Young Boozer
Mr. Dennis Beavers
Dr. Greg Fitch
Chancellor Freida Hill
Mr. Daniel Hughes, Vice Chair
Mr. Mychal Smith
Dr. William Meehan
Ms. Morgan Cowling for Lt. Governor Kay Ivey

Absent:

Mr. Ronald Stokes

Others Present:

Ms. Glenda Allred, Deputy Treasurer
Ms. Daria Story, Assistant Treasurer
Ms. Brenda Emfinger, College Savings Programs Director
Mr. Jay Steinacher, Union Bank and Trust
Mr. William Shafferman, Union Bank and Trust
Mr. Trevor Jackson, Wilshire Associates
Mr. Mannik Dhillon, Wilshire Associates
Mr. Jeremy Thiessen, PCA Consultants

Pursuant to written and public notice, the meeting of the Board of Directors of the CollegeCounts 529 Fund was held in the RSA Union Building, 6th Floor Conference Room on November 9, 2011.

Agenda Item 1.

The meeting was called to order by Chairman Young Boozer at 9:00 a.m., with a quorum present.

Agenda Item 2.

Chairman Boozer presented the minutes of the August 10, 2011 board meeting. A motion for approval was made by Mr. Beavers, seconded by Mr. Hughes, with unanimous approval.

Agenda Item 3.A.

Chairman Boozer called on Mr. Steinacher for the quarterly program review. Mr. Steinacher began by stating that the markets had a negative impact on the overall market value of the Program during the quarter, but the markets had a strong bounce back in October. He stressed the need for a long term view in relationship to volatility in the economy and markets.

The September 30, 2011 report is attached for reference and summarized as follows:

- For the quarter ended September 30, 2011, total program assets were \$714.5 million with new contributions of \$10.4 million from out of state investors and \$13.9 million from Alabama residents. There were a total of 57,070 accounts. Alabama accounts increased by 963 to a total of 16,847.
- 63% of new Direct Plan accounts have been established online.

- The marketing and promotion efforts are statewide. Alabama counties with the largest number of accounts are Jefferson, Madison, Shelby, Baldwin and Mobile.
- Census Bureau statistics report 1,132,459 Alabama children under the age of 18. CollegeCounts has 16,847 Alabama accounts. The in-state “success rate” is 1.49%. The ongoing goal is to grow Alabama accounts by 5,000 each year.
- The Program offers solid diversification and choice. Investors have utilized the Age-Based tracks with 66.6% of Direct assets and 73.1% of Advisor assets invested in the Age-Based Portfolios.
- The overall allocations selected by investors when looking through all of the portfolios is 64% equity / 36% fixed income in the Direct Plan and 67% equity / 33% fixed income in the Advisor Plan.
- The average age of account owners is 47 years with 74% of all account owners between the ages of 35 to 65.
- The average account size in the Direct Plan is \$9,623 and \$13,399 in the Advisor Plan.
- Additional information was provided on the composition of the underlying funds in the various age based and target portfolios

Mr. Hughes encouraged the continuation of a strong in-state marketing and outreach program within Alabama, along with increasing out-of-state accounts and assets based on the overall solid value of the program.

Agenda Item 3.B.

Mr. Steinacher introduced the gentlemen from Wilshire to review current markets and fund performance reviews. Mr. Jackson began with a discussion of the economy, noting that performance was affected negatively by the volatility in Europe and the unrest in the Middle East. He stated that diversification was the best strategy for dealing with market fluctuations and that companies were better positioned currently than they were in 2008 to withstand the volatile economy. He summarized quarterly performance with an analysis of the various asset classes, noting that fixed income was slightly positive while equities were down significantly. He then explained that down markets did create opportunities for active managers and further justified diversification.

Mr. Dhillon then discussed performance for the Direct sold plan. He stated that in most all portfolios, performance was down but in line with the benchmark, except for PIMCO. PIMCO's underweighting of Treasuries hurt their performance but he noted that during October they reversed their duration back to a neutral position in relationship to the benchmark. He further stated that their long term performance was good with expectations of continued improvement.

A discussion of performance for the Advisor sold plan is as follows:

T Rowe Price – performed slightly below the benchmark
 Harbor Large Cap Value – performed slightly above the benchmark
 Fidelity Mid Cap – their defensive position paid off this quarter, outperformed the benchmark
 Lord Abbett Developing Growth – outperformed the benchmark
 William Blair Small Cap – performed near the benchmark
 Northern Small Cap – outperformed the benchmark
 All international equity managers performed below the benchmark

Mr. Jackson reviewed the summary of fund management changes and recommended actions that were included in the materials. No action is recommended at this time.

Mr. Beavers asked Mr. Jackson how long a fund should be monitored before action is taken.

Timeframe was discussed and it was Wilshire's conviction that within the next two quarters a recommendation concerning the Blackrock Bond fund would be made. Mr. Thiessen also reminded the board of its adopted policy timeframes and guidance for reviewing managers.

Mr. Hughes then questioned the active style of management for a TIPS allocation. Mr. Thiessen explained that there were limited opportunities in this type of investment and that passive investing would allow the portfolio to fall behind and active management was warranted.

Mr. Jackson then explained that an annually review of asset allocations would be performed and reviewed at the February meeting.

Agenda Item 3.C.

Treasurer Boozer then called on Mr. Thiessen for his review of performance with the Board. Mr. Thiessen began with a discussion of investment trends within the 529 industry. He stated that many states were adding more conservative options because of the aversion to risk. He further discussed the need for a significant commitment to equities over time to provide a return to meet the assumed 6% tuition inflation factor.

Mr. Thiessen stated that there were no additional funds that qualified for a watch status. He stated that the Fidelity Advisor Fund would be monitored, the Harbor Large Cap Value was being monitored on watch status and the Blackrock was close to the watch status. He reminded the Board that the Investment Policy outlined the criteria action to be taken on funds being monitored. He concluded by stating that the fund had held up well in a difficult economic environment.

Agenda Item 3.C.1.

Mr. Thiessen provided a copy of the Morningstar Report to the Board. He informed the board that he had recently attended a conference where Laura Lutton discussed the method used by Morningstar for evaluation. His conclusion from the discussion was that the process was not transparent with great liberties taken in the weightings which make it very difficult to determine commonality in the ratings. He explained that the CollegeCounts Fund received a rating of Average, in part due to Morningstar's view of the Program's fees. He also pointed out that the Advisor and Direct plans were not separated which accounted for the note about the fees. He stated that they liked the multiple options offered and the familiarity of the underlying funds. Mr. Thiessen stated that an average rating was not bad and that next year the criteria for the rating might change from the current focus on fees.

Mr. Steinacher stated that he had also had conversations with Morningstar concerning the rating and the importance of looking at the Direct and Advisor Plan as separate plans with their different underlying funds and expenses. The Advisor Plan will benefit from some upcoming fee reductions by Northern Trust that will lower the overall expenses for the Advisor Plan age-based and target portfolios. These reductions are expected January 1st. He stated that once the fees were reduced he would share that positive information with Morningstar. He also informed the Board that another highly respected college savings plan rating service, Joe Hurley with Saving for College.com, has rated CollegeCounts with a favorable 4.5 out of 5 cap's rating for Alabama residents.

Agenda Item 3.D.

Chairman Boozer called on Ms. Allred for a marketing report. Ms. Allred explained the role of Union Bank and Red Square in the marketing plan, noting that Red Square handles most aspects related to television and the social media for the direct sold plan. She provided a written report, attached for reference, showing the marketing activities of Union Bank, as well as the various mailings and new web based efforts. She provided information on the current email blast to account holders and web page for the "Give Smart" facebook giveaway.

The Board reviewed statistics provided by Red Square that showed 1,327 friends liked the page which resulted in 437,100 inquiries on the site. She provided information on the terms of the Facebook contest, stating that 550 people had entered the giveaway with the final prize to be announced on Monday, November 14.

The Board viewed the television ads being aired and previewed the new ad featuring Treasurer Boozer for the gift giving season.

Ms. Allred informed the Board that work would begin on the marketing plan for 2012 to be presented at the February meeting.

Agenda Item 4.A.

Ms. Allred continued with a discussion of a proposed scholarship program to be funded by the Opportunity Enhancement Fund created by the Legislature. She provided a working draft of the basic concepts to be considered in establishing a program. Mr. Hughes stated that he would like to make sure that the selection process was independent. Mr. Beavers suggested that an official letter from the high school also be requested to verify the financial need. Dr. Meehan suggested that an equivalent SAT score be added and Mr. Beavers suggested some type of work requirement.

Dr. Fitch expressed his opinion that the scholarship program could be better used in workforce development by providing opportunities for training through certificate programs and the two year colleges. He provided the information that is attached to the minutes.

After discussion, Chairman Boozer stated that further work would be undertaken with Dr. Fitch's comments to be considered.

Agenda Item 4. B. and C.

Chairman Boozer called the Board's attention to financial information provided and noted the dates for the 2012 board meetings.

There being no further business, the meeting adjourned at 12:20 p.m.

Brenda Emfinger, Recording Secretary

Young Boozer, Chairman

Presentation by Dr. Fitch

Alabama's 529 Scholarship Program

Mission: To provide financial support for qualified Alabama residents seeking to improve their employment opportunities through specific short-term educational training.

Purpose: To provide qualified Alabama residents the opportunity to attend Alabama's Public Colleges/Universities to learn and earn a certificate to enhance new employment opportunities, retrain, and improve quality of life, which will impact positively the state's economy.

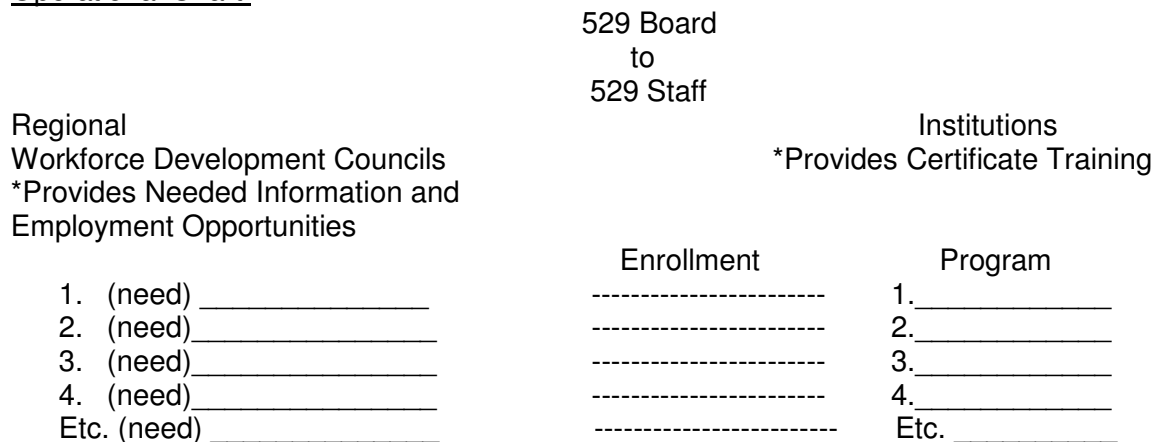
Student Eligibility: (1) U.S. Citizen
(2) Full-time resident of Alabama
(3) Enrolled in an Alabama Public College (to be)
(4) Referral & Reference Support of High School
Counselor/Principal, former or present employer or future employer

What is Provided: (a) Tuition, applicable fees associated with training, books/materials only.

*Repayment of scholarship if student leaves program before completion except for a recognized/certified emergency (must be approved by 529 staff and/or Board).

One time program training experience leading to a certificate in an employment area identified by the workforce region.

Operational Chart:



Qualified Students

%

%

%

High School Grads/ GED Needed:	Layoffs, Unemployed (Receiving Unemployment Payments):	Upgrade Training (Specialized):
Graduation Date or GED Pass	Verification of unemployment benefits	Employer program
Interest (HS or work desire)	Date of layoff or last working day	Support experience
Letters of Support	Letter of support, e.g. previous employer, re: family and friends	Need
	Program choice (a) related to past history and/or new opportunity	

Goal: To provide training for 100 citizens in pilot program FY12 and expand the 529 by FY 2013.

Assessment: (1) Number enrolled
 (2) Number of completers
 (3) Target needs met in region
 (4) Number of jobs filled, upgraded
 (5) Duration of program data, e.g, 3 week-month-etc.
 (6) Number off of unemployment roll

Possible starting salaries